

Umetco Minerals Corporation



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m/037/025
m/037/027*

February 1, 2005

Mr. Daron R. Haddock
Permit Supervisor
Minerals Regulatory Program
State of Utah
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
Salt Lake City, Utah 84114

RECEIVED

FEB 03 2005

DIV. OF OIL, GAS & MINING

**RE: Revised Bonding Requirements, Umetco Minerals Corporation
Deremo/Peterson and Wilson/Silverbell Mines - M/037/025 and M/037/027
San Juan County, Utah**

Dear Mr. Haddock:

The Division of Oil, Gas, and Mining (DOGM), in a letter dated January 20, 2005, indicated that Umetco Minerals Corporation (Umetco), a wholly-owned subsidiary of Union Carbide Corporation (UCC), must provide (1) a "hard surety" of \$6,000 for completing the reclamation work on the Deremo/Peterson and Wilson/Silverbell Mine, and (2) a draft copy of the surety and reclamation contract within 30 days. This letter is to inform you that Umetco will provide a draft of the bond and reclamation contract within the 30-day period specified in your letter. Procurement of the bond and finalization of the contract will follow promptly thereafter, so that the small amount of reclamation work at these sites can be completed in the spring.

We must note, however, that we disagree with DOGM's conclusion that Umetco, backed by UCC's guarantee, does not have "sufficient financial strength" to self-bond for the above amount. [Under the applicable Mined Lands Reclamation Contracts, UCC has guaranteed that if Umetco fails to reclaim the affected mining lands, UCC will arrange for performance of such activities following notice from the Board.] The applicable statute requires the Board of Oil, Gas and Mining (not DOGM) to assess financial status, assets within the state, past performance in complying with contractual obligations, and the facilities to carry out the planned work, among other things. Similarly, Utah's surety regulation requires an operator to show "sufficient financial strength" to self-bond. For the reasons described below, we believe that DOGM's reliance on the formula set forth in its letter of December 7, 2004 (a formula found nowhere in either the statute or regulation) is misplaced, and does not adequately measure whether a company has "sufficient financial strength" to self-bond.

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UCC's financial status as guarantor is within the applicable requirements. Apart from UCC's guarantee, Umetco itself has sufficient assets within the state to secure a \$6,000 obligation. In addition, Umetco's past performance in complying with its contractual reclamation obligations at this site and others has been exemplary (Umetco's work at the Calliham Mine, located in the same geographic area, won the DOGM Earth Day Award for outstanding site reclamation). Umetco has the assets in place to carry out the reclamation, and, in fact, the reclamation is virtually complete. Therefore, according to the applicable statute, Umetco should have been allowed to continue to self-bond.

Notwithstanding our belief that DOGM's conclusion is incorrect and unsupportable, Umetco will follow through with the bond procurement and contract process as described above. Please let us know if this process is acceptable to DOGM.

Sincerely,



J. D. Moore

General Manager

Umetco Minerals Corporation

JDM/jfc